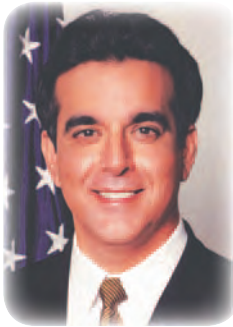




MESSAGE FROM THE ADMINISTRATOR

NOVEMBER 15, 2004



Hector V. Barreto
SBA Administrator

I am pleased to present the Small Business Administration's FY2004 Performance and Accountability Report. This annual report is available to the general public, Congress and our customers; the Nation's small business community. It provides information on

the previous year's accomplishments and operations, including a detailed accounting of costs.

FY2004 was a tremendous year for the SBA, and for America's small business owners. In FY2004, we shattered our all-time loan records through our two primary loan programs, delivering over \$16 billion in financing. I am proud to say that each one of those loans represents a chance for an entrepreneur to live the American dream. In June of this year, we announced the overall FY2003 Government contracting results. Over 65 billion dollars, or 23.6 percent of Government-wide contract dollar awards, were reported by procuring agencies as small business contracts. These results set a new record for small business prime contracting. We anticipate even greater success for FY2004. We also provided training, technical assistance and education relating to entrepreneurship to over two million clients. Through our disaster assistance program, we provided over \$880 million in disaster loans to homeowners, renters and small businesses. The SBA continues to act as a powerful advocate for small business on such topics as tax policy, health care and regulatory reform.

As part of our mission to serve small businesses, it is important that we create a successful environment within the SBA. Since 2001, numerous improvements have been made to ensure that we increase our performance while reducing the cost to the taxpayer. Our goal has been to create an Agency culture based on measured performance, accountability, and efficiency. FY2004 was no exception as we continued to create a stronger and

more effective SBA to serve the needs of the small business-person. We provided more for small business, while using fewer taxpayer dollars. I consider this to be a tremendous accomplishment.

As part of our effort to improve efficiency, we have embraced and utilized new technologies. We now have an online application for our 8(a) business development program and we have instituted E-tran, the electronic transmission of loan applications. We also have been able to consolidate many of our operations, resulting in greater efficiency and reduced cost.

We will continue to strive to improve in the future. Our work does not end with each accomplishment. I expect the SBA to have another banner year in FY2005, and FY2004 was clearly a significant step forward. American entrepreneurs are the reason for the success of FY2004, and their efforts need to be recognized. Without their ingenuity, desire, and drive, there would be no demand for the products we offer at the SBA. Instead, we at the SBA are an enthusiastic partner willing to extend a helping hand when needed.

The SBA is proud to have met the accelerated financial reporting schedule this year. Since the publication of our FY2003 Performance and Accountability Report on January 30, 2004, the SBA has continued to make major improvements in its financial management and reporting to reach our goal of an improved independent audit opinion. This year was especially challenging because all of our work had to be completed between February and mid-November to meet the accelerated schedule rather than the traditional twelve month schedule. Despite our detailed planning and the successful resolution of the issues raised in the FY2003 financial audit, the accelerated schedule presented new challenges that ultimately resulted in a qualified audit opinion. While we recognize that some additional refinements need to be made, again this year we are very proud of the progress we have



made in financial management and reporting. With the exception of the items identified in the audit, the financial data is complete and reliable and we are confident that the quality of our financial statements and reporting processes are strong.

The SBA has continued efforts to strengthen our internal control program and we are working toward compliance with the requirements of the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act. Although there has been substantial improvement, my internal control assurance statement for FY2004 is qualified due to the issues raised by the independent auditor this year. While we have made major improvements, we recognize additional progress needs to be made and I believe our continued work in this area will yield an improved assurance for FY2005.

The SBA's performance objectives have been aligned to support the President's Small Business Agenda and the President's Management Agenda. Our performance indicators are designed to measure outcomes for its clients, as well as measure key program outputs. We continue to improve performance data; however, data quality

challenges still remain. We continue to improve the completeness and reliability of the performance data for credit and procurement programs and advice provided to small business through the SBA's resource partners. We have engaged a third party to do an independent validation of the performance indicators being used to measure the SBA's impact on the formation and growth of small businesses, and plan to build on the findings from that analysis with additional program evaluations. The management controls section of this report provides additional information on data validation and verification.

It is my privilege to serve the American public as the SBA Administrator and advance the President's goal of creating an environment where small business can grow and flourish. I invite you to visit our Internet website (www.sba.gov) for more information about the SBA and our programs.

Sincerely,

Hector V. Barreto
Administrator

RESULTS AT A GLANCE

Record Accomplishments

FY2004 was both a very successful year and a year of significant change for the Small Business Administration. Under Administrator Barreto's continued leadership, the Agency set historic records within its programs while implementing fundamental management and organizational improvements in many key areas. By improving the economic environment for small businesses and by expanding the amount of financial and technical assistance available to them, SBA has been one of the primary forces driving the Nation's economic growth engine—small businesses.

While SBA's Strategic Goals reflect challenges ahead, the Agency's FY2004 results demonstrate that SBA is on the right track to successfully meet them. Record accomplishments across the program areas, combined with both improved management of the Agency's resources and efficiencies achieved through technology, have resulted in the strongest year in SBA's 50-year history.

The SBA achieved important results both in helping small businesses directly and in improving key aspects of Agency operations. The valuable service that SBA provided to small businesses is described below in five major areas: financial assistance, technical assistance, procurement assistance, small business advocacy and disaster recovery assistance. The success SBA saw in improving Agency operations is also described below:

Financial Assistance

In FY2004, the SBA made or guaranteed over \$20 billion in loans and venture capital for small businesses, the most in its history. Since 2001, loans to small businesses, including those to minorities, more than doubled. The SBA approved over 81,000 business loans (i.e., 7(a) loans) to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels, and over 8,300 Certified Development Company loans (i.e., 504 loans) that provide long-term, fixed-rate financing to small businesses to acquire real estate or equipment for expansion or

modernization. These numbers represent a 21% and 22% increase respectively over the equivalent period last year. The public benefit of this accomplishment is that these small businesses were able to get started, or to expand and grow, through access to capital that would likely not have been available without SBA's involvement.

These accomplishments were achieved while increasing the efficiency of SBA's lending operations. During FY2004, SBA tremendously reduced its costs to liquidate loans by centralizing its processing. In FY2003, total liquidation costs for 7(a) loans were \$32.10 million; in FY2004 total liquidation costs for 7(a) loans were \$12.7 million, a difference of over \$19.4 million. This savings represents a 62% reduction in the cost of liquidating one 7(a) loan, at the rate of \$2,046 in FY2004, compared to \$5,352 per loan in FY2003.

Technical Assistance

During FY2004, approximately 2.1 million entrepreneurs (compared to 1.2 million in FY2001) received business counseling through the SBA and its resource partners, Small Business Development Companies (SBDC), SCORE, the Small Business Training Network (SBTN) and Women's Business Centers (WBC). The SBA expects these numbers to continue their rapid growth as the Agency responds to its customers' requests for the delivery of more services via the Internet. The counseling that was provided included assistance in developing a business plan, conducting a market study, complying with employee tax withholding requirements, and similar topics vital to the success of a small business. The public benefit of this assistance was that these clients of SBA were able to launch, continue, or grow their businesses more successfully than they would have without the technical knowledge provided by the Agency and its resource partners.

Procurement Assistance

The SBA also continued on its mission to support the Administration in meeting its statutory commitment

to provide a fair share of contracting dollars to small businesses. In FY2004, the SBA provided procurement assistance to over 37,000 small businesses. For example, Business Matchmaking gave small businesses around the Nation a better opportunity to obtain government and private contracts by introducing them to procurement officials who, otherwise, would have been very difficult to meet. The program's goal was to stimulate jobs and growth for small businesses by taking advantage of opportunities that are normally relegated to distinct geographical areas such as the Washington, DC area or a city where a major corporation is located. In the past year, the SBA held events with over 12,061 face-to-face meetings and 1,361 facilitated telephone calls conducted in a dozen cities across the country. This allowed small firms to learn about and bid on procurement opportunities in their areas of expertise. As a result, 39 small businesses were awarded close to \$20 million dollars in Federal and private contracts. The majority of these businesses were women-owned.

Small Business Advocacy

American small businesses also benefited from the efforts of SBA's Office of Advocacy, which was able to reduce regulatory costs on small businesses by over \$17 billion dollars last year. SBA's efforts to work with Federal agencies to find effective and less burdensome regulatory alternatives resulted in a tremendous benefit to the Nation's small businesses. Millions of small businesses were able to better use the time and money—that would otherwise have been expended on compliance with these regulations—in ways that more directly supported their successful operation.

Disaster Recovery Assistance

For years to come, people will remember the tremendous work SBA did in 2004 to help the Nation recover from the worst hurricane season on record. During FY2004, the SBA Disaster program approved low-interest loans to over 28,500 homeowners and businesses, totaling over \$883 million. As SBA continues to work in the hurricane disaster areas, the Agency is expected to provide over 100,000 loans for more than \$3 billion. The direct public benefit of these SBA loans was that the businesses and local economies in disaster areas were able to recover much more quickly than they would have otherwise.

Improved Management

While the SBA achieved significant growth in loans, assistance and other services, the Agency dramatically reduced its cost structure. From FY2001 through FY2004, the SBA's budget decreased by 17.6% and full time-equivalent employees (FTE) declined by 17.2%. The Agency streamlined many processes and consolidated backroom operations as part of a comprehensive plan to reorganize the field staff. These improvements contributed significantly to SBA's success in achieving record program levels with fewer resources.

As backroom operations were centralized, field personnel were able to focus on direct assistance to the small business community. The Agency expanded the reach of this assistance through the establishment of "Alternate Work Sites" (AWS), small offices in geographic areas that had not been served effectively by the existing field structure. Through AWS, the SBA will have a presence in many more communities across the country than in the past.

In 2004, the SBA was a leader on the President's Management Agenda (PMA), moving to a "green" rating status for two of the five initiatives: e-Government and Budget and Performance Integration (two green ratings were achieved by only seven out of 26 Agencies). The SBA is green on PMA "progress" in four out of five areas. SBA's green rating for Budget and Performance Integration reflects the Agency's efforts to measure the impact and effectiveness of its programs and to focus its resources on those activities that produce the best results. For the first time in over a decade, during FY2004, SBA awarded a contract to begin a major evaluation of the Agency's assistance programs. SBA also established an independent Audit and Financial Management Advisory Committee, making it one of the few Federal agencies to add this additional level of accountability to its financial management process.

Progress made by focusing Agency attention on the Inspector General's Management Challenges resulted in an improvement of status in 30 of 117 actions. This reflects the real steps the Agency has taken to reduce opportunities for fraud, waste and mismanagement.

Access and Efficiency through Technology

The Nation, its economy and businesses of all sizes continue to evolve with advancements in technology. For its products and services to remain relevant to the small business community, SBA must leverage technology too. A flagship example of this is SBA's role as a managing partner of the Business Gateway, a user-friendly business portal (Business.gov). The portal, which was launched in FY2004, provides a one-stop, common access point for small business owners to find, understand and comply with Federal regulations.

During FY2004, SBA completed implementation of a new Web-based loan application solution that saves lenders substantial time and resources when submitting a loan to SBA. Loan guarantee requests are now submitted electronically via the newly created E-Tran System. The SBA also implemented a lender monitoring system that will improve the Agency's effectiveness in monitoring lenders' performance. The new system uses more data and analytical tools to assess lender performance and relies less on resource intensive on-site reviews.

In the past year, the SBA has moved to a completely automated electronic application process for the 8(a)

and Small Disadvantaged Business (SDB) Programs. As a result, the average time to process an 8(a) application has fallen from over 100 days to 45 days, and for SDB, the drop is from 110 days to 40 days. Consequently, time and government resources are being used more efficiently, at the same time that better customer service is being provided to small businesses.

Challenges Ahead

To meet the Agency's core purpose of serving the Nation's small business sector well, SBA has continued to set ambitious goals—despite a difficult budget environment. Meeting its goals of expanding services and assistance across programs requires SBA to continue efforts to focus its resources in the highest impact areas. SBA must continue to evolve based on the increased use of technology, better measurement techniques for the evaluation of programs, and the ongoing restructuring of the Agency's workforce. Programs that do not achieve the intended results are not cost effective. Duplicate services available elsewhere must be discontinued or modified with resources redirected to more effective uses. By using available resources in the most effective way possible, SBA will continue to be a vital, strong and relevant partner for the Nation's small businesses.